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## The Distributive Logic of Active Labour Market Governance

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# Summary



## Introduction

In the last three decades, welfare states have responded to the challenges of intensified international competition, post-industrialization and demographic aging by investing in active labour market policies (ALMPs) such as the provision of placement services, counselling, and case management of jobseekers, training and employment maintain incentives. A common feature of these studies is that they focus exclusively on the *policies* of activation. Yet, the switch to activation is also embedded in institutions of active labour market *governance* (ALMG) such as benefit administrations and public employment services. ALMG involves the assignment of roles, responsibilities and decision-making levels (by states, markets and social partners) in the delivery of active labour market policies. Despite its importance in the general shift from welfare to activation, the politics and effects of ALMG are still poorly understood. For example, ALMG arrangements differ profoundly from one European welfare state to another, in terms of the distribution of responsibilities between state, social partners and the market. How can we account for such variation? Another topic of debate is how the involvement of states, markets and social partners affect the employment opportunities of those who are considered to benefit most from activation policies, namely outsiders in the labour market. Against this background this dissertation addresses the following central research questions:

*What factors are responsible for the distribution of responsibilities between the state, social partners and markets in ALMG? (covered in part I)*

*How, and to what extent, does the involvement of the state and the market in ALMG affect employment opportunities for labour market outsiders? (covered in part II)*

Both research questions refer to a *distributive logic* of ALMG that I introduce in this dissertation. A distributive logic emphasizes that governance arrangements are not only functional requirements for the implementation of policies, they also involve aspects of control, as well as the empowerment needed to gain such control. ALMG arrangements grant certain actors, parties and organized interest groups, discretionary space in delivering social policies, such as the ability to influence the budget, set policy priorities, and influence the implementation process. ALMG thus affects the power resources of political actors and provide these actors with decision-making authority and long-term control over welfare programmes. In this dissertation, I assess the political process through which actors acquire this control on the one hand (part I), and the distributive outcomes of this control for different risk groups in society on the other (part II). Thus, in a nutshell, this dissertation covers the distributive politics and outcomes of ALMG.

### *Outline of part I*

Part I of this dissertation covers the distributive politics of ALMG reform. Comparative welfare state research addressing the shift from welfare to activation mainly focuses on the role of political, institutional, socio-economic and ideational determinants in explaining the scope and direction of active labour market *policies*. Yet the factors shaping the governance of these policies are less well understood. Three main categories of actors can be identified in ALMG. Does the state have sole responsibility for ALMG, does it share its governmental responsibilities with social partners (i.e. representatives of employees and employers), or are aspects of control left to the market? What factors are responsible for the distribution of responsibilities between the state, social partners and markets in ALMG? In the introduction of part I the key theoretical puzzle of this part is substantiated: how to account for the *divergence* in ALMG reform trajectories (something that cannot be explained by socio-economic adaptation, ideas and discourses and critical junctures) that in some instances occurred quite radically (something that is at odds with theories of path-dependency and gradual institutional change).

**Chapter 2**, co-authored with Michael Baggesen Klitgaard and Gijs Schumacher, tests the hypothesis that ALMG reforms are driven by partisan politics, in combination with party-union linkages. The approach we use involves comparing the ALMG reforms carried out in Sweden, Denmark, Spain and the Netherlands from 1982 to 2011. The data are analysed in three steps. In the *first* step we perform a statistical test of the theory, and confront it with plausible alternatives by applying an ordinary multinomial regression analysis. In the *second* step we research qualitatively how policy and institutional benefits are redistributed. *Third* and finally we take a step to inspect the causality of the argument in a comparative case study. We compare an institutional reform undertaken by the Danish centre-left government in the period 1998-1999 with an institutional reform by the Spanish government of the Left 1993-1996. The analysis supports the expected pattern of strong partisan effects on ALMG. Governments dominated by liberal parties prefer ALMG arrangements based on market or quasi-market principles. Left wing governments prefer corporatist ALMG solutions if the party-union linkage is strong and state solutions if party-union linkage is weak. Governments dominated by Christian Democratic parties prefer corporatist ALMG arrangements.

**Chapter 3**, co-authored with Timo J. Weishaupt, builds on and refines this argument of chapter 2. We propose theoretically that the choice for a type of ALMG arrangement is not only structured by the parties in government, but that also the linkages between the social partners (trade unions and employers organizations) matter: the ability of the social partners to unite on reform positions. We demonstrate that when the social partners are *divided*, their collective power is reduced and partisan-based policy outcomes become more pronounced. In turn, when the social partners *jointly* favour a particular outcome, their collective power increases and they can override governmental reform plans, even if the government holds a large legislative majority. We evaluate this proposition through a qualitative comparative case study of the Netherlands and Austria. The evidence put forward in this chapter is based on a

thorough analysis of secondary data sources and primary data sources, including official policy documents, parliamentary debates, newspaper articles and semi-structured interviews with key stakeholders.

### *Outline of part II*

Part II of this dissertation covers the distributive outcomes of ALMG. From welfare state research, we learn that welfare policies do not always benefit the most disadvantaged in society. Indeed, rather than bringing about redistribution, they may actually enhance stratification. This argument is carried further in recent studies on dualization, emphasizing the growing divide between labour market insiders and outsiders. These studies identify *policies* that reinforce occupational divides as the main cause of this process. My research extends this analysis to the governance of ALMPs. In addition to assessing the linkage between politics, policies and outcomes, the distributive consequences of ALMG are taken into account. My research emphasizes that employment opportunities for outsiders in the labour market are not influenced by policies alone, but that governance may also have an impact in this regard. In the introduction to part II it is argued that the involvement of social partners in the institutional-administrative structures of the welfare state can result in insider-based policy outcomes, involving activation policies that are less strongly focused on outsiders in the labour market. Yet, it is unclear whether the reverse is also true. Do activation policies become less insider biased and more beneficial to outsiders in the labour market when other actors (such as the state or the market) have a stronger position in ALMG?

**Chapter 4**, co-authored with Peter Mascini and Romke van der Veen, evaluates how the basic principles of activation policies have been put into practice. More specifically, we want to determine if the unintended implementation mechanisms associated with the welfare state have continued to play a role since the activation state took over, or if they have been replaced by other mechanisms. We base this analysis on a comparative case study of the implementation styles of a public social security agency administering unemployment insurance (*Uitvoeringsinstituut Werknemersverzekeringen*, UWV), a municipal social assistance agency and a private reintegration company located in a large Dutch city. Based on eighteen in-depth interviews with managers and case workers as well as document analysis and observations in each organization, our analysis points to a paradox. We find that selection and a focus on measurable outcomes are more salient in the public context than in the private context while the reverse is true with respect to bureaucratization.

**Chapter 5**, co-authored with Franca van Hooren and Deborah Rice, extends the analysis to the implementation of activation by assessing the labour market position of two typical outsider groups: early school-leavers and lone parents. Have outsider groups seen their position deteriorate as a consequence of retrenchments in welfare policies, or are they endowed with capabilities that alleviate social disadvantages through changing governance of activation at the local level? For the analysis we collected information for each group on: a) policy changes on the macro-level, b) a simulation of household income development and c)

employment service provision under the Dutch social assistance scheme. Income data were gathered through a triangulation of sources including archival records, governmental websites and documents of municipalities. Information on the type of employment services offered is based on 21 semi-structured interviews conducted with managers and caseworkers responsible for implementing the Dutch social assistance act. We find that policy changes have benefited employment of both outsider groups. The income development shows on the other hand a growing divergence in income between those who manage to find employment and those who remain work-poor, pointing to the importance of finding work in the Dutch welfare state. Capacitating and activating outsider groups to find work is an explicit aim of service delivery at the local level. Yet, capacitation and activation are not givens and depend to a large extent on available budgets. Our interviews suggest that capacitation has brought in jeopardy by recent budget cuts in the Netherlands. Under this condition, municipalities have begun to invest their service budgets primarily in the most promising clients affecting the job opportunities of especially those groups with a large distance to the labour market. For these groups, less (or less qualitative) services were being offered.

**Chapter 6** assesses the effects of ALMG reforms in the Dutch disability scheme on the efforts of employers to retain people with disability in the labour market. Two types of evidence are presented. On the basis of time series data provided by the Dutch benefit administration, it is shown that benefit caseloads did not alter in the context of profound policy reform, but declined sharply when the disability governance system was reformed with increased employer responsibilities. On the basis of qualitative data the central role of employers is further evaluated. The theorized causal pathway is more directly tested in a focus group on the role of employers after the disability governance reforms in the Netherlands. The focus group and interviews reveal that employers have changed their internal processes and investment decisions in the context of disability governance reforms. Before the 2000s, health of employees was not a core issue of firms. Following the reforms, respondents have indicated that management of health has become a part of the core strategy of firms, alongside for instance product development, innovation, market strategy and communication. However, this chapter also identified an unintended effect of the reforms. Under current institutional conditions it becomes harder for people with disabilities to (re) enter the labour market. Precisely because of increased responsibilities, employers might be more unwilling to hire workers with an increased risk at disability that would incur future costs on employers. This should explain why unemployed people with health problems encounter much more difficulties in finding work than unemployed people without disabilities.

### *Empirical contribution*

The first empirical contribution is that the relative power of political actors (both within and between the corporatist and partisan arenas) drives the direction of ALMG. Based on the results of chapter 3, I conclude that – if they unite on a joint position – trade unions and employers' organizations can enforce corporatist ALMG arrangements. Indeed, in situations

like this, they can actually override governmental reform plans, even if the government holds a large legislative majority. However, when these parties *fail* to agree, the government can take the lead and partisan-based policy outcomes become more pronounced, as shown in chapter 2.

The study's second empirical contribution is that ALMG can shape distributive outcomes. Labour market outsiders have, to some extent, benefitted from ALMG reform in the Netherlands. On the other hand, the results here also reveal some unintended effects on the implementation of activation policies. This involves a socially selective policy outcome where, in some cases, those facing fewer barriers to the labour market profit more than people who are at a relatively large distance from the labour market. This effect is seen in the governance of unemployment insurance, social assistance and disability insurance. The distributive outcomes of ALMG reflect the interests of those who hold political power. The state may defend outsiders' interests in ALMG, but it can also take measures that, albeit unintentionally, reproduce and reinforce existing divides between insiders and outsiders. Under a series of centre-right governments from 2002 to 2012, substantial cuts were made in funding for activation measures, both in the public employment service (unemployment insurance) and at local authority level (social assistance). These budget cuts had a particularly large impact on service delivery to typical outsider groups. Both inside the public employment service and at local authority level, case workers channelled effort and support measures into individuals with relatively favourable employment opportunities. As a result, they unintentionally neglected the needs of the most disadvantaged. The extent to which the government is able to pursue its preferences is shaped by the structure of ALMG. Due to its powerful, central role in Dutch ALMG, the government can unilaterally implement measures that would be much harder to achieve in a context where it is required to share power (as in Austria, see chapter 3). In other words, the matter of whether outsiders benefit from activation policies is inherently a partisan political question that may be especially reinforced in a state-led ALMG structure.

### *Theoretical contribution*

In addition to the empirical contributions, both parts of this dissertation also have implications for existing theories. Part I shows that actors, their interests, and the alliances they form are all significant in terms of ALMG reform processes. This factor receives less acknowledgement in functionalist and ideational accounts of institutional change. Theories of path dependency and gradual institutional change, on the other hand, do tend to take actors and interests seriously. An observation added by the present study is that interactions between actors can also result in more radical change. Rather than being exogenously driven, this type of change is the result of shifting coalitions, and of the power of key actors, within national welfare states. On the basis of the research reported in this dissertation, much more emphasis should be given in the literature to strategic interrelations between trade unions and employers' organizations. The same applies to the ability of national governments to unilaterally pursue ideologically motivated reforms, despite the existence of formal veto points in the system. Institutional



change is critically dependent on the coalitions that the defenders and opponents of existing institutions are able to plan and forge, or on those that emerge unexpectedly in the course of distributional struggles. This dissertation points out that the relative power of political actors within and between the corporatist and partisan arenas is enormously important in shaping the processes of institutional change.

This dissertation also makes a conceptual contribution to the insider-outsider literature, which has tended to conceptualize insiders and outsiders in two different ways. In the first conceptualization, insiders and outsiders are distinguished on the basis of their employment status or on the basis of their risk of being in atypical employment or unemployment. I propose a third, complementary, conceptualization based on how individuals from different occupational and social backgrounds are capacitated through active labour market service delivery. For instance, some groups, such as single parents, can be considered as typical outsider groups on the basis of their employment profile and their risk status. However, their risk of unemployment or precarious employment can be mitigated through high-quality case management. Yet, under different conditions (such as declining budgets), these same groups may not receive services of the same quality. As a result, their risk of remaining unemployed or of resorting to precarious employment contracts increases. This, in turn, escalates the outsider status of these groups.

This dissertation also contributes to the literature on dualization by pointing out that, rather than a dualization between employed individuals and the jobless, dualization may also occur between those with favourable job opportunities and those who are at a large distance from the labour market. The introduction of new public management techniques, together with cost-containment pressures on local authorities, and the shifting of responsibilities to employers may result in the socially selective targeting of services. Any attempt to elucidate the processes of dualization should not focus purely on structural factors or on the development of political actors' interests. It should also involve a consideration of the behaviour and working practices of actors involved in the governance of policies. Such a theoretical perspective should be sensitive to the interaction between the policy environment, the governance environment and the behaviour of key actors.

In sum, while much of the existing welfare state literature focuses on the *policies* of welfare reform, this dissertation argues forcefully for including elements of governance as well. In doing so, this research updates the body of knowledge on the political drivers of welfare reform (Part I) and it enhances our understanding of how the internal mechanisms of the welfare state shape distributive outcomes (Part II).